

Message Text

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SUBJ: MPEAA PROBLEMS IN INDIA; VISIT OF GEORGE VIETHEER

REF: NEW DELHI 1613

SUMMARY: OUR REVIEW WITH GOI OF OUTSTANDING ISSUES HOLDING UP THE SIGNING OF A NEW FILM IMPORT AGREEMENT WITH THE MOTION PICTURE EXPORT ASSOCIATION OF AMERICA (MPEAA) LEADS US TO THE CONCLUSION THAT MPEAA WILL HAVE TO SHOW SOME FLEXIBILITY ON ISSUES OF INDIANIZATION, MODALITIES OF IMPORT, AND ACCUMULATION OF BLOCKED RUPEES. ACTION REQUESTED: WE SUGGEST THAT THE DEPARTMENT ENCOURAGE GEORGE VIETHEER OR ANOTHER HIGH RANKING MPEAA OFFICIAL SEEK AN APPOINTMENT WITH AMBASSADOR T.N. KAUL PRIOR TO THE START OF VIETHEER'S NEGOTIATIONS HERE. END SUMMARY.

1. IN PREPARATION FOR THE VISIT OF MPEAA VICE PRESIDENT VIETHEER, WE CALLED ON JOINT SECRETARY OF INFORMATION AND BROADCASTING HARISH KHANNA APRIL 24. THE PURPOSE OF THE CALL WAS TO VERIFY THE ASSERTION OF THE LOCAL MPEAA REPRESENTATIVE THAT THE ONLY OBSTACLE TO SIGNING OF A NEW FILM IMPORT AGREEMENT SIMILAR TO PREVIOUS AGREEMENTS WAS THE MINISTRY OF FINANCE'S OBJECTION TO FURTHER ACCUMULATION OF BLOCKED RUPEES.

2. OUR TALK WITH KHANNA CENTERED ON FOUR MAIN ISSUES: A) INDIANIZATION OF THE LOCAL SUBSIDIARIES OF US FILM COMPANIES;

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B) THE LEVEL OF REMITTANCES TO BE ALLOWED IN THE NEW FILM

AGREEMENT C) MODALITIES OF IMPORT, I.E. HOW AND BY WHOM?
AND D) WHETHER OR NOT THE GOI WOULD PERMIT EXCESS RUPEE
EARNINGS TO BE ACCUMULATED IN BLOCKED ACCOUNTS AS HAD BEEN DONE
IN THE PAST.

3. KHANNA'S REMARKS LEFT US WITH THE IMPRESSION THAT IN
ADDITION TO THE QUESTION OF BLOCKED RUPEES, THE TWO SIDES
STILL HAVE DIFFERENCES IN OTHER AREAS. ON THE QUESTION OF
INDIANIZATION, FOR EXAMPLE, KHANNA SAID THE GOI WOULD INSIST
THAT THE US MOTION PICTURE COMPANIES DILUTE THEIR EQUITY HOLDINGS
IN LOCAL SUBSIDIARIES TO 40 PERCENT IN ACCORDANCE WITH THE
RECENTLY AMENDED FOREIGN EXCHANGE REGULATIONS. WE THOUGHT MPEAA
WAS READY TO GO ALONG WITH A PHASED REDUCTION IN EQUITY, BUT
MR. VALENTI'S RECENT AIDE MEMOIRE TO THE AMBASSADOR DOES NOT
CONTEMPLATE ANY INDIANIZATION WHATSOEVER.

4. BOTH SIDES HAVE AGREED ON A REMITTANCE LEVEL INDENTICAL
TO THAT OF PREVIOUS AGREEMENTS. THE MODALITIES OF IMPORT,
HOWEVER, HAVE NOT BEEN SPELLED OUT, ACCORDING TO KHANNA. HE
SAID THAT THE GOI HAD RETREATED FROM ITS EARLIER POSITION OF
INSISTING ON OUTRIGHT PURCHASE RATHER THAN RENTAL OF ALL
FILM IMPORTS. ALL IMPORT WILL BE CHanneLED THROUGH A NEWLY-
CREATED PUBLIC SECTOR NATIONAL FILM CORPORATION (NFC). KHANNA
SAID THAT THE LOCAL FILM COMPANIES WOULD BECOME "ASSOCIATES"
OF NFC, SHARING DISTRIBUTION RESPONSIBILITIES AND SHARING
PROFITS -- AND LOSSES -- ON AN AGREED BASIS. KHANNA SAID THIS
ARRANGEMENT WOULD TEND TO FUZZ THE ISSUE OF BUY VS RENT TO THE
SATISFACTION OF BOTH PARTIES.

5. KHANNA SAID NFC WOULD ALSO BE CONCERNED WITH SELECTION
OF SUITABLE FOREIGN FILMS FOR IMPORT, A ROLE WHICH HAS CAUSED
SOME CONCERN TO MPEAA BECAUSE OF THE QUESTION OF WHICH PARTY
WOULD PAY SHIPPING COSTS FOR THOSE FILMS WHICH WERE PREVIEWED
IN INDIA AND REJECTED. KHANNA SAID THAT PROBLEM COULD BE
RESOLVED AS IT HAD BEEN WITH OTHER COUNTRIES, BY HAVING THE
GOI PAY RETURN FREIGHT IF THE FILM WERE NOT ACCEPTED.

6. ACCORDING TO KHANNA, THE ISSUE OF FURTHER ACCUMULATION OF
BLOCKED RUPEES IS NOT A SERIOUS ONE BECAUSE OF THE RELATIVELY
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SMALL AMOUNTS INVOLVED. HOWEVER, HE SAID THAT THE FINANCE
MINISTRY DID NOT WISH TO ENCOURAGE ARRANGEMENTS OF THIS SORT
AND WOULD PREFER TO "PAY CASH IN FOREIGN EXCHANGE". KHANNA
NOTED THAT THIS APPROACH WOULD LEAD TO A SUBSTANTIALLY LOWER
VOLUME OF US FILMS BEING IMPORTED. WE DISCUSSED MPEAA'S RECENTLY
SUBMITTED SUGGESTIONS FOR AMPLICATION OF USES OF BLOCKED
RUPEES. KHANNA SAID THAT BARTER PROPOSALS AND ANY INVESTMENT
SCHEME WHICH WOULD GENERATE EVEN MORE BLOCKED RUPEES WERE NON

STARTERS. (HE SAID THERE WAS A SLIGHT CHANCE THAT THE FINANCE MINISTRY MIGHT APPROVE INVESTMENT OF SOME OF THE BLOCKED FUNDS IN PRIORITY AREAS SUCH AS FERTILIZER MANUFACTURE.) HE WOULD LIKE TO SEE MPEAA TAKE MORE INDIAN FILMS, RATHER THAN JUST PROPOSE THAT INDIA AND US TEAMS VISIT EACH OTHERS' COUNTRIES TO EXPLORE THE POTENTIAL FOR INCREASED INDIAN FILMS EXPORTS TO THE U.S.

7. COMMENT: KHANNA'S PRESENTATION MAKES IT CLEAR THAT BLOCKED RUPEES ARE NOT THE ONLY ISSUE HOLDING UP GOI APPROVAL OF A FILM AGREEMENT. AT THE SAME TIME, HOWEVER, HE WAS TRYING TO CONVEY THE IMPRESSION THAT THE GOI WAS MORE FLEXIBLE ON THE ENTIRE SUBJECT OF FILM IMPORTS THAN IT HAD BEEN BEFORE AND THAT IF MPEAA SHOWED A SIMILAR FLEXIBILITY IN THE UPCOMING NEGOTIATIONS, AN AGREEMENT SATISFACTORY TO BOTH PARTIES COULD BE WORKED OUT. WE INTEND TO DISCUSS KHANNA'S POSITION WITH VIETHEER AND RECOMMEND SOME SHIFTS IN THE MPEAA LINE TO MEET THE ABOVE POINTS.

8. ACTION REQUESTED. KHANNA STATED THAT A CABLE FROM AMBASSADOR T.N. KAUL IN THE NEXT FEW DAYS, STRESSING THE DESIRABILITY OF REACHING AGREEMENT WITH MPEAA WOULD BE BOTH TIMELY AND USEFUL. WE RECOMMEND THAT VIETHEER OR OTHER HIGH LEVEL MPEAA REPRESENTATIVE SEEK A ME
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